

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: U S WEST COMMUNICATIONS, INC., AND QWEST INC.	DOCKET NO. SPU-99-27
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ORDER REQUIRING ADDITIONAL INFORMATION

(Issued November 5, 1999)

On September 20, 1999, Qwest Communications Corp., LCI International Telecom Corp., USLD Communications Inc., and Phoenix Network Inc. (collectively "Qwest"), and U S WEST Inc. filed with the Utilities Board (Board) a "Joint Application" for an order approving the proposed merger of Qwest Inc. and U S WEST, Inc. (collectively, the "Applicants"), pursuant to IOWA CODE §§ 476.76 and 476.77 (1999). The filing has been identified as Docket No. SPU-99-27.

After completing its initial review of the Joint Application, the Board finds it has a number of questions concerning the proposed transaction. It is possible that some of these questions could wait until the hearing in this docket, but some of them require relatively detailed responses that are likely to take some time to assemble. The result would be that many of these questions would have to be answered after the hearing, potentially extending the time required for the Board to complete its review of the proposed reorganization. The ability of the Board to complete that review in a timely manner will be improved by receiving answers to all of these

questions in advance of the hearing. Accordingly, the Board will direct Applicants to answer all of the questions on the attached document, identified as Attachment A and incorporated herein by this reference, within 14 days of the date of this order. If the Applicants are unable to respond to some of the questions in that time frame, they should file a detailed request for extension of time, applying only to those questions that cannot be answered within 14 days, and explaining why that is so.

IT IS THEREFORE ORDERED:

Applicants are directed to answer the questions set forth in the attached document, identified as Attachment A, within 14 days of the date of this order. Answers should be submitted in the form of sworn testimony and exhibits.

UTILITIES BOARD

/s/ Allan T. Thoms

/s/ Susan J. Frye

ATTEST:

/s/ Raymond K. Vawter, Jr. /s/ Diane Munns
Executive Secretary

Dated at Des Moines, Iowa, this 5th day of November, 1999.

**ATTACHMENT A
TO
"ORDER REQUIRING ADDITIONAL INFORMATION"
DOCKET NO. SPU-99-27**

The following questions are to be answered by the Applicants. They are organized by reference to Board rules, statutory requirements, and the Joint Application for ease of use. Omission of any particular rule or statutory requirement should not be interpreted as any indication that the Joint Application is sufficient or deficient with respect to that particular requirement.

FILING REQUIREMENTS FROM BOARD RULES

199 IAC 32.4(1) General information.

- b. An analysis of the alternatives to the proposed reorganization which were considered and their impact on rates and services, if any.**

Questions

- 1) Rule 32.4(1)(b) requires an analysis of the alternatives to the proposed reorganization which were considered and their impact on rates and services. No such analysis was provided, although the prepared direct testimony of one U S West witness indicates other alternatives were considered. (Phillips direct, p. 12.) Describe the alternatives that were considered by U S WEST, Inc., and U S WEST Communications, Inc.

199 IAC 32.4(2) Reorganization details.

- b. Staffing changes due to the proposed reorganization.**

Questions

- 1) What plans, if any, exist to increase personnel to solve the problem of held orders?
- 2) What plans, if any, exist to increase personnel to address other categories of service problems?
- 3) Compare and contrast the benefits plans for employees of the two merging companies.
 - a) Explain how the newly merged company will handle its pension plans and other benefits, including but not limited to the effect on retirement benefits and financial statements. Be clear as to which corporate entities and set of employees are affected. Also make clear any differential treatments of employee groups in any changes to pension plans applicable to former U S West Communications, Inc., operations.
 - b) Are there any plans or efforts to move from defined benefit toward cash balance approaches?

- c) If yes, will employees have a choice as to which approach applies to them, or would it be mandatory?
- d. A description of the proposed accounting to be utilized in any transfer of assets necessary to accomplish reorganization.**

Question

- 1) U S West witness Cummings states that U S West does not anticipate that any assets will be removed from the Iowa jurisdiction or transferred from regulated to non-regulated accounts as a result of the merger. If, however, any assets are transferred, for whatever reason, to accomplish the reorganization, how do the applicants propose to account for the transfer?

e. The proposed method for:

(2) Compliance with the board's rules on affiliate transactions and relationships.

Question

- 1) Please describe the Applicants' proposed method for ensuring compliance with the Board's rules on affiliate transactions and relationships, as required by IOWA ADMIN. CODE 199-32.4(2)"e"(2), or provide a reference to where this information may be found in the Application.
- f. Copies of all contracts which directly relate to the reorganization. If there are any unwritten contracts or arrangements, a summary of the unwritten contracts or arrangements verified by an officer of the operating company shall be provided.**

Questions

- 1) File copies of all lists of subsidiaries and affiliates, identification of pending or threatened litigation, lists of the major contracts either applicant has with other entities, schedules, side letters, or other documents that form a part of, modify, or affect the terms and conditions of the merger agreement.
- 2) Section 3.25 of the merger agreement states that Qwest Inc. has disclosed to U S West, Inc., all plans, projections, or the like, written or otherwise, relating to its or its affiliates' efforts to compete in U S West's 14 state region. File copies of all written disclosures made pursuant to this statement and a detailed written description of all other disclosures made pursuant to this statement.
- 3) Section 6.03 of the merger agreement states that the parties will execute such additional documents as may be required to make the merger effective. To the extent such additional documents modify, change or add to the terms and conditions of the merger agreement, provide copies of all such additional documents as they are executed.

- h. A statement of any proposed physical removal of assets from the board's jurisdiction to another jurisdiction or removal or transfer of assets from a regulated to a nonregulated environment.**

Questions

- 1) Witness Phillips on page 21, lines 22-23, stated that there will be asset transfers in the normal course of business when assets move from regulated to nonregulated accounts.
 - a) Describe what the referenced transfers are.
 - b) Provide a listing for each of the last two years of any such transfer of assets from the regulated entity doing business in Iowa and specify the rationales for the transfers.
- 2) What accounting changes to the merged consolidated financial statements and to those of U S West Communications, Inc., will need to be made to accurately reflect any discontinuance of interLATA services within the U S West 14-state region?

199 IAC 32.4(3) *Financial details.*

- b. A description of the financing components of the proposed reorganization.**

Questions

- 1) Witness Cummings on page 6 of his direct testimony references opinions given by Merrill Lynch, Lehman Brothers, and Donaldson, Lufkin & Jenrette. Provide all research reports by any of these parties to support their opinions.
- c. Information concerning the funding provided to any new entity created by the proposed reorganization.**

Question

- 1) The Applicants' Cross Index identifies Witness Cummings' testimony on p. 12 as providing information concerning the funding provided to any new entity created by the proposed reorganization. However, the referenced testimony does not seem to directly address this requirement. Please identify all funding that was acquired to help underwrite and/or facilitate the launching of this merger attempt.

199 IAC 32.4(4) *Impact of reorganization.*

- a. A cost-benefit analysis which describes the projected benefits and costs of reorganizing. The benefits and costs should be quantified in terms of present value. The sources of such benefits and costs shall be identified.**

Questions

- 1) File a cost-benefit analysis focused on the regulated Iowa portions of the merged entity, in compliance with the filing requirements.
 - 2) Provide the quantitative and descriptive detail behind the Cost/Benefit analysis that was filed as a confidential exhibit.
 - 3) It has been stated that the costs for this merger and the failed merger with Global Crossing will not be charged to regulated services in Iowa. Where will these costs be charged? Please provide categorized detailed information showing the treatment of the merger costs by organization.
- c. An analysis of the effect on the public interest. Public interest means the interest of the public at large, separate and distinct from the interest of the public utility's ratepayers. The analysis should include a discussion of the reorganization's impact on the economy of the state and the communities where the utility is located. If more than one public utility is involved in a reorganization, the information shall be submitted for all public utilities involved.**

Questions

- 1) What plans do the Joint Applicants have for seeking approval under § 271 of the Telecommunications Act of 1996? The response should include a proposed schedule for seeking approval, if one exists in any form.
- 2) What procedures and plans does Qwest have for divesting its in-region interLATA long distance customers? Please describe the process, in detail, including an explanation of how the process will be in compliance with the Board's anti-slamming rules.
- 3) U S West is currently involved in a collaborative effort with many of the U S West state regulatory commissions for third-party testing of U S West's operational support systems. Please describe the status of the collaborative effort and state how the proposed merger will affect U S West's commitment to the collaborative.

STATUTORY FACTORS

2. ***476.77(3)“b” WHETHER THE PUBLIC UTILITY’S ABILITY TO ATTRACT CAPITAL ON REASONABLE TERMS, INCLUDING THE MAINTENANCE OF A REASONABLE CAPITAL STRUCTURE, IS IMPAIRED.***

Questions

- 1) Provide copies of reports, analyses, opinions, or comments made by rating agencies regarding the credit rating of U S West, Inc. and its subsidiaries and of Qwest Inc. and its subsidiaries since the merger announcement. This should include at least those from Standard and Poor's, Fitch, and Moody's that are in your possession or readily acquired.
- 2) Provide information on any rating changes imposed upon U S West, Inc., and its subsidiaries due to, or associated with, the failed merger attempt with Global Crossing, including the 9.5% investment in Global Crossing's stock.
- 3) Provide copies of all equity research reports currently possessed by, or readily available to, the Applicants regarding either U S West, Inc., or Qwest Inc. since the merger's announcement.
- 4) Witness Gallant on page 5 of his direct testimony addressed whether the post-merger entity will have the financial ability to attract capital on reasonable terms and responded "of course," referencing Exhibits F and H. Please identify the specific information in Exhibits F and H (and provide any associated analysis) that led Witness Gallant to his conclusion.
- 5) Witness Cummings repeatedly references SEC Form S-4/A filed August 13, 1999, by Qwest Inc. Provide three copies of that document.
- 6) Explain the expected dividend policy of the merged company. Identify the expected dividend pay out as well as the expected amounts of retained earnings and plans for their use.
- 7) Provide for each of the last five years the capital structure for the consolidated U S West, Inc., calculated utilizing a 13-month average of month-ending balances ending on December 31st of each year. Provide the same type of information for U S West Communications, Inc.
- 8) What equity ratio, as defined by common equity (common equity + preferred equity + long-term debt), will the newly merged consolidated company seek to maintain? Also what equity ratio will the newly merged management seek to maintain for U S West Communications, Inc?
- 9) Calculate and provide the "total debt to equity" ratio for each of the last five years for the consolidated U S West, Inc., and also for U S West Communications, Inc. The response should show how the calculations are done and reference source documents and data.
- 10) What "total debt to equity" ratio will the newly merged consolidated company seek to maintain? Also what "total debt to equity" equity ratio will the newly merged management seek to maintain for U S West Communications, Inc?

- 11) Page II-13 of Exhibit H notes that U S West, Inc. conveyed about 2.3 million shares of Global stock (acquired by U S West, Inc., in June 1999) as part of the termination fee for the proposed Global-U S West, Inc., merger.
- a) How many shares of Global are still owned by U S West, Inc., and what valuation is reflected for this asset on the June 30, 1999, balance sheet? How does this compare to a current mark-to-market valuation?
 - b) What plans and/or constraints exist for the treatment of these remaining shares?
 - c) How will or does the loss incurred for the 2.3 million shares affect financial statements, by how much, when, and for which specific corporate entities?
 - d) How will other losses and costs to date reflecting the aborted Global – U S West, Inc. merger be booked and with which corporate entity? The response should clearly show the expected effect on balance sheets, income statements, and cash flow and identify the specific year in which parts are booked or to be booked.
- 12) Exhibit H provides condensed balance sheets. Provide any full balance sheets that exist, including full supporting notes.
- 13) Exhibit H, p. II-12, states that U S West, Inc., is deemed the acquiror for accounting purposes. Explain the advantages of having U S West, Inc., deemed the acquiror for accounting purposes instead of Qwest Inc.
- 14) Exhibit H, p. II-12, gives preliminary goodwill at about \$23.66 billion dollars.
- a) To what corporate entity will this be booked?
 - b) Will any of the amortization of this expense be allocated against U S. West Communications and any against the Iowa regulated portion of the utility?
- 15) Exhibit H, p. II-11 and II-14, shows an “increase in additional paid-in capital of \$20,438 million. Does this represent actual new paid-in capital? If not, explain in greater detail.
- 16) Identify all debt that was issued (and by which corporate entities) to effectuate this proposed merger.

3. 476.77(3)“c” WHETHER THE ABILITY OF THE PUBLIC UTILITY TO PROVIDE SAFE, REASONABLE, AND ADEQUATE SERVICE IS IMPAIRED.

Questions

- 1) U S West witness Phillips states, on page 22 of his direct testimony, that “[t]he merger can be expected to have only a favorable effect on the quality of service provided by U S West in Iowa.” What, specifically, are the favorable effects the merger can be expected to have for U S West local service customers in the state of Iowa?

- 2) Provide service measurements based upon the criteria set forth in the Board's standards of quality of service (IOWA ADMIN. CODE 199-22.6) for the time period of January 1997 through the most current month.
- 3) a) Provide a listing, by exchange, of all central office switching equipment including remotes that are used in the provision of local service. The listing should include switch type, manufacture, vintage, and the current capabilities/features of each switch or remote.
b) Provide a status report on all activities associated with the infrastructure modernization plan included within the current price cap plan. Explain what effect, if any, the merger will have on this plan.
- 4) Has U S West developed plans for the placement of central office hardware and software so that customers in all exchanges to be able to purchase custom calling services? What are these plans and how will the merger impact them?
- 5) Has U S West developed a program or mechanism to determine what plant facilities/features in specific areas or locations appear to be causing customer service problems? If a process or program exists, please provide a summary copy of the results or outputs. Also, if corrective action for specific problem areas has been determined, please provide the intended action plan for each identified issue or problem area.
- 6) Has U S West developed specific capital budget programs for the next five years? If so, please provide a listing of the identified projects with the estimated cost of each project and the estimated amounts for each year.
- 7) What steps has U S West taken to ensure that telecommunications and related systems using computer or embedded chip technology will be functional as the year 2000 arrives? Does U S West have contingency plans in place to accommodate telephone operations if failures occur? What are the contingency plans?
- 8) Has U S West developed plans to reduce or eliminate existing held orders for primary service? If so, what are those plans? In cases where a shortage of plant facilities is the reason for the held order, do plans include provisions for placing buried physical plant prior to frozen soil conditions?
- 9) If the Board determines that additional capital expenditures in excess of normal budgeted amounts are required to improve customer service, how will U S West/Qwest fund these projects?
- 10) Assuming that other states in the 14 state U S West serving area require additional capital expenditures to improve customer service, how will U S West ensure that each state receives its appropriate share?

- 11) What steps should the Board take to monitor service quality if the proposed merger is not disapproved?
- 12) If internal customer service policies or practices exist for both U S West and Qwest, what policies/practices will be adopted and used for the provision of local service for Iowa local exchange service customers?
- 13) The Federal Communications Commission has recently proposed that Qwest should be fined for slamming violations in the interstate jurisdiction. What steps are being, or will be, taken to protect against this type of activity in the local and intrastate markets in Iowa?
- 14) What steps are being taken to enhance the quality of service for carrier-to-carrier and wholesale customers of U S West?
- 15) What plans, if any, does U S West have for providing advanced or enhanced services in the rural markets of Iowa? How will those plans be affected by the proposed merger?
- 16) What plans or action steps has U S West made or taken to enhance plant facilities to accommodate the provisioning of advanced services to all customers? How will these plans be effected by the proposed merger?
- 17) At page 14, lines 4 to 7 of his direct testimony, witness Cummings states that there are no plans to reduce the level of investment in Iowa as a result of the merger. Are there any plans to change the manner in which those funds will be invested in Iowa? In other words, will different investment options be emphasized after the merger, compared to U S West's pre-merger plans? If yes, what changes are expected?

4. 476.77(3)“d” WHETHER RATEPAYERS ARE DETRIMENTALLY AFFECTED.

Question

- 1) For each entity within the Qwest family of companies, provide a list of the actual services provided to Iowa customers, together with a detailed explanation of that service identifying its specific corporate provider.